

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 SP-02 USIA-06 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01
/109 W

-----034146 091836Z /43

R 091817Z SEP 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 8401
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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USMTN; PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: 1978 GOF BUDGET

SUMMARY: 1978 GOF BUDGET, ANNOUNCED SEPTEMBER 7,
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PROVIDES FOR A DEFICIT OF FF 8.9 BILLION, AS COMPARED
TO AN ESTIMATED 1977 DEFICIT OF FF 16 BILLION. ITS
TWO-FOLD OBJECTIVE IS TO SUSTAIN ECONOMIC ACTIVITY
WHILE CONTINUING THE RESTORATION OF THE FUNDAMENTAL
ECONOMIC EQUILIBRIA. SEVERAL NEW FISCAL MEASURES TO
INCREASE REVENUE WERE ANNOUNCED AS WELL AS VARIOUS
TAX RELIEF MEASURES. END SUMMARY

THE 1978 GOF BUDGET HAS BEEN DESIGNED TO GIVE LIMITED, SELECTIVE SUPPORT TO THE ECONOMY WITHOUT COMPROMISING THE PROCESS OF RESTORING THE FUNDAMENTAL ECONOMIC EQUILIBRIA. ACCORDING TO THE GOF, THE LARGE REDUCTION IN THE EXTERNAL TRADE DEFICIT AND THE STABILIZATION OF THE FRANC SHOULD PERMIT THE ECONOMY TO RETURN TO A RELATIVELY HIGH RATE OF GROWTH (4.5 PERCENT) WITHOUT HINDERING A DECLINE IN THE RATE OF INFLATION. NOMINAL GIP IS EXPECTED TO INCREASE BY 12.6 PERCENT TO FF 1,840 BILLION. GAINS IN PRODUCTIVITY PLUS THE CONTINUATION OF WAGE DISCIPLINE WILL HOPEFULLY MAKE IT POSSIBLE TO REDUCE THE RATE OF INFLATION TO 6.5 PERCENT IN 1978. AN IMPORTANT COMPONENT IN THE GOF'S ESTIMATE OF GIP GROWTH IN 1978 IS THE EXPECTATION THAT THE IMPROVEMENT IN THE FINANCIAL SITUATIONS OF FIRMS WILL RESULT IN A 3.7 PERCENT INCREASE IN NON-FINANCIAL FIRMS' INVESTMENTS. HOUSEHOLD CONSUMPTION IS PROJECTED TO GROW BY 4.0 PERCENT, WHILE THE ASSUMPTIONS FOR EXPORTS AND IMPORTS ARE 8.1 PERCENT AND 7.1 PERCENT RESPECTIVELY. THE GOF COUNTS ON THIS RATE OF GIP GROWTH PERMITTING A REDUCTION IN THE LEVEL OF UNEMPLOYMENT.

ESTIMATED 1978 EXPENDITURE IS FF 398,260 MILLION, 12.47 PERCENT INCREASE, WHICH IS ROUGHLY EQUAL TO LIMITED OFFICIAL USE

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THE GROWTH IN NOMINAL GIP. GOF REVENUE IS ESTIMATED TO BE FF 389,710 MILLION. THE NET CHARGE FOR OPERATIONS OF A TEMPORARY NATURE IS FF 350 MILLION. THUS, THE DEFICIT FOR 1978 IS SET AT FF 8,900 MILLION, AS COMPARED TO THE CURRENTLY ESTIMATED DEFICIT OF FF 16 BILLION FOR 1977. THE GOF HAS NOT YET SPECIFIED HOW THIS DEFICIT WILL BE FINANCED OTHER THAN TO STATE THAT

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R 091817Z SEP 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 8402
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THERE WILL DEFINITELY NOT BE ANOTHER PUBLIC BORROWING.

THE BUDGET ALLOWS FOR A LARGE INCREASE IN PUBLIC
INVESTMENTS. GOF PROGRAM AUTHORIZATIONS (CIVIL AND
MILITARY) WILL INCREASE BY 13.8 PERCENT WHILE PUBLIC
PROGRAMS AS A WHOLE (INCLUDING THE NATIONALIZED SECTOR)
WILL INCREASE BY 14.8 PERCENT. CIVIL AND MILITARY
PAYMENT CREDITS WILL INCREASE BY 16.6 PERCENT. THE
BUDGET ALSO PROVIDES FOR 26,000 NEW JOBS.
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SEVERAL NEW TAX MEASURES HAVE BEEN PROPOSED WHICH
WILL RESULT IN AN INCREASE OF FF 8.4 BILLION IN NEW
RECEIPTS. THE TAX ON PETROLEUM PRODUCTS WILL BE
INCREASED BY 2 PERCENT IN FEBRUARY AND BY 7 PERCENT
IN JUNE. TAXES ON VEHICLES, LOTTERY TICKETS, AND
TOBACCO WILL ALSO BE INCREASED. THE TAX ON CERTAIN
FORMS OF WEALTH, SUCH AS BOATS AND SECONDARY RESIDENCES,
ESTABLISHED IN THE 1977 BUDGET, WILL CONTINUE IN 1978.
FINALLY, AN EXCEPTIONAL TAX AMOUNTING TO FF 900 MILLION
WILL BE DEMANDED OF FINANCIAL INSTITUTIONS.

VARIOUS MEASURES HAVE BEEN INSTITUTED TO ALLEVIATE THE TAX BURDEN OF CERTAIN CATEGORIES OF TAXPAYERS. THE TAX BRACKETS HAVE BEEN RAISED, RANGING FROM A 7.5 PERCENT INCREASE FOR THE LOWEST BRACKET TO A 5.0 PERCENT INCREASE FOR THE HIGHEST BRACKET. THE INCOME TAX DEDUCTION HAS BEEN INCREASED BY 10 PERCENT AND MADE UNIFORM FOR BOTH SALARIED AND NON-SALARIED TAXPAYERS. CERTAIN TAX EXEMPTIONS HAVE BEEN GRANTED TO PEOPLE ENTERING RETIREMENT AND TO THE AGED. FINALLY, TO STIMULATE STOCK PURCHASES BY SMALL AND MEDIUM SAVERS, THE EXEMPTION ON DIVIDENDS HAS BEEN INCREASED FROM FF 2,000 TO FF 3,000, THE SAME LEVEL APPLICABLE TO BONDS.

COMMENT: THE ESTIMATE OF A FF 8.9 BILLION DEFICIT IN 1978 IS BASED ON A VERY OPTIMISTIC EXPECTAION OF GROWTH IN GIP. TO THE EXTENT THAT THE RATE OF GROWTH FALLS SHORT OF THIS ASSUMPTION, A SHORTFALL IN RECEIPTS WILL RESULT IN AN INCREASE IN THE DEFICIT. END COMMENT
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Message Attributes

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Disposition Approved on Date:
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Disposition Date: 22 May 2009
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Secure: OPEN
Status: NATIVE
Subject: 1978 GOF BUDGET SUMMARY: 1978 GOF BUDGET, ANNOUNCED SEPTEMBER 7, LIMITED OFFICIAL USE
TAGS: EALR, EFIN, EGEN, FR
To: STATE
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